2020
HALF YEAR RESULTS

HALF YEAR ENDED 31 MARCH 2020

AASB9 INFORMATION PACK

OVERVIEW

ANZ’s application of AASB 9

Our Provision Charge and Balance in the First Half of FY20

- The onset of COVID-19 had a significant impact on credit provisions in the First Half of FY20 - ANZ bolstered credit reserves by $1.4b. The total collective provision balance now sits at $4.5b
- The Provision charge was $1.7b for the half with an annualised charge rate of 53 bps – double our through-the-cycle expected loss of 26 bps
- The increased collective provision (CP) almost solely reflected our more negative view of economic forecasts rather than customer downgrades or increased delinquencies.

AASB 9

- ANZ commenced reporting under the accounting standard AASB 9 in the First Half of FY19. AASB 9 is very different to the former standard, including the requirement to be forward looking. Previously we accounted for losses as they were incurred. As conditions worsen under AASB 9 more of the portfolio is provided for under a lifetime expected loss basis rather than a 12 month expected loss in more normal times.
- AASB 9 requires CP to be an unbiased, probability based measure. ANZ applies a probability weighting to 4 macro economic scenarios – including our base case representing the current economic forecast as well as upside, downside and severe downside economic cases. Each of these is assessed differently in each of our key geographies.
- Our base case was set out in slide 23 of our 1H20 Results pack and is replicated on slide 8 of this pack. In this Base Case you can see a sharp deterioration in the near term and a gradual improvement over time. As you can expect the outlook is subject to significant uncertainty including the duration of lockdowns, the impacts of support measures and the extent and duration of the economic downturn.
- We’ve also provided on slide 8 the provision balance that would arise if 100% of weighting was applied to any of the economic scenarios. In 1H20 ANZ applied most of our weighting to the Base Case and Downside scenarios. As part of the process, we gave careful consideration to pressures in certain geographies and segments. Subsequently we applied a greater downside probability in New Zealand, in higher risk industries and on small business customers.
- On slide 9 we outline a scenario for Credit Risk Weight migration and the subsequent possible CET1 impact of that migration under our Base Case economic forecasts. The estimated impacts to ECL, Risk Weight migration and capital estimated impacts are based on modelled outcomes under ANZ’s base case scenario and the assumed impacts of that scenario.

ALLOWANCE FOR EXPECTED CREDIT LOSSES (ECL)

ANZ measures what is referred to as the allowance for expected credit losses (ECL) using an ECL impairment model per the standard, AASB 9 Financial Instruments.

For more information about ANZ's accounting policy under the standard see the description in Note 1 of our Condensed Consolidated Financial Statements for 1H20 and Note 13 in the same documents related to FY19. ECL is either individually assessed for a particular customer or collectively assessed for a portfolio of similar credit exposures.

INDIVIDUALLY ASSESSED ALLOWANCE FOR ECL

When estimating individually assessed ECL for Stage 3 exposures, the Group makes judgements and assumptions in relation to expected repayments, the realisable value of collateral, the business prospects for the customer, competing claims and the likely cost and duration of the work-out process.

Our judgements and assumptions were updated to reflect the potential impact of COVID-19.

COLLECTIVELY ASSESSED ALLOWANCE FOR ECL

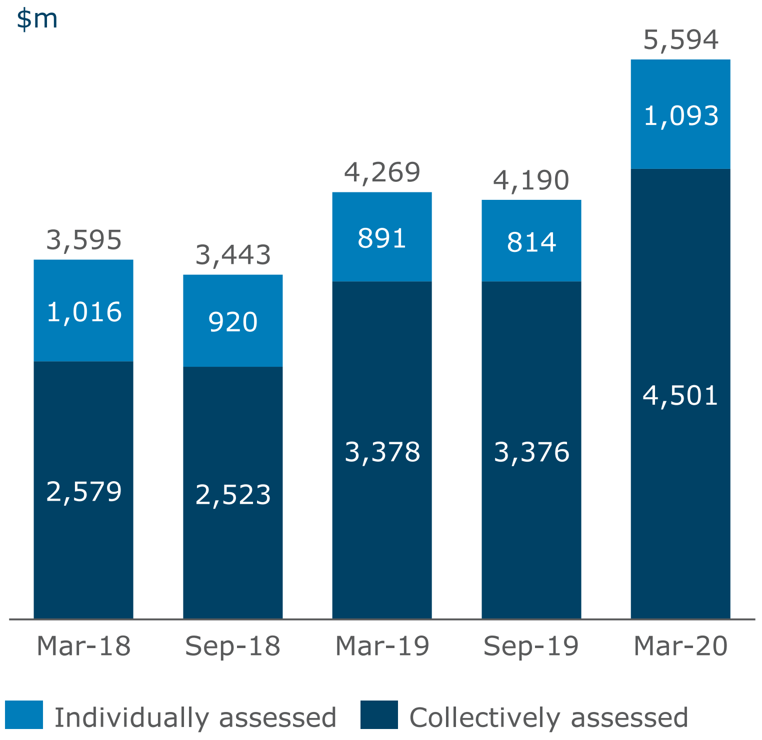
When we estimate the collectively assessed ECL, ANZ has to make judgements and assumptions in relation to:

- Selecting an estimation technique or modelling methodology, noting that the modelling of the Group's ECL estimates are complex; and
- Selecting inputs for those models, and the interdependencies between those inputs.

The modelling methodology applied in estimating ECL in the Half Year 31 March 2020 is consistent with that used in for the Full Year 2019.

The potential impacts of COVID-19 on the global economy and how governments, businesses and consumers respond is uncertain and because of that our assessment of expected credit losses in relation to the ANZ credit portfolio is subject to a number of management judgements and estimates.

TOTAL ALLOWANCE FOR ECL

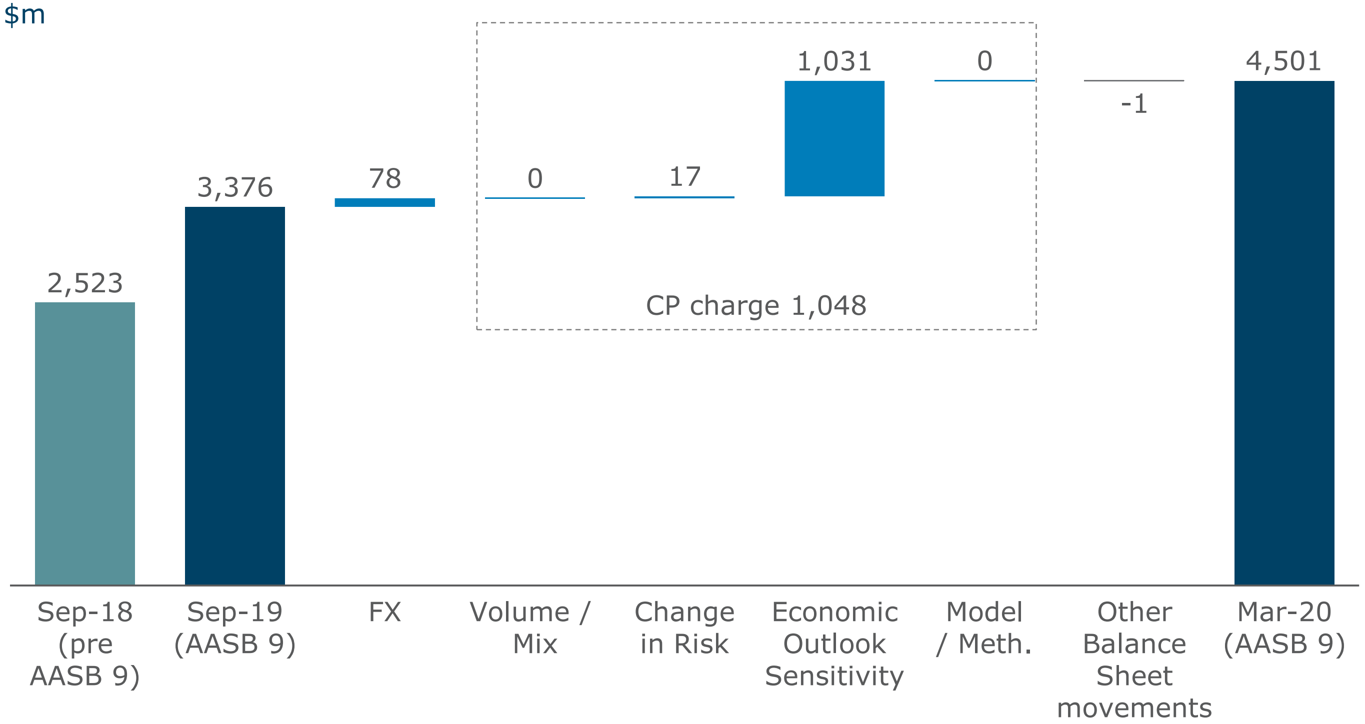


1. Includes allowance for expected credit losses for Net loans and advances – at amortised cost, Investment securities – debt securities at amortised cost and Off-balance sheet commitments - undrawn and contingent facilities
2. Includes assets and liabilities reclassified as held for sale from continuing and discontinued operations

COLLECTIVE PROVISION BALANCE & CHARGE UNDER AASB-9

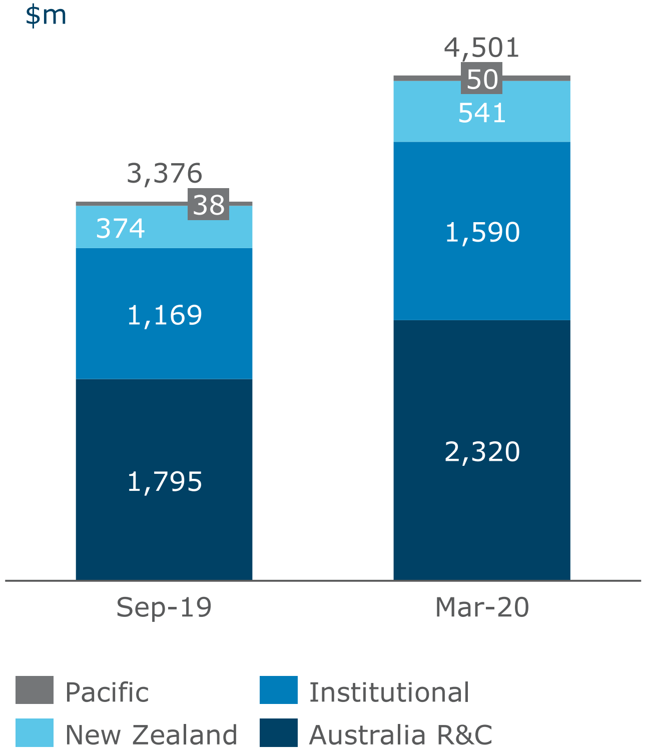
The schematic below details key elements impacting the collective provision over the period from 30 September 2019 to 31 March 2020.

MOVEMENT



COVERAGE RATIO	Mar-19	Sep-19	Mar-20
IP / GIA[1]	42%	40%	42%
CP / CRWA[2]	0.98%	0.94%	1.17%

BY DIVISION



1. GIA: Gross Impaired Assets
2. CRWA: Credit Risk Weighted Assets

JUDGEMENTS & ASSUMPTIONS

ECL ESTIMATES ARE INHERENTLY UNCERTAIN; ACTUAL RESULTS MAY DIFFER FROM ESTIMATES

Judgements and assumptions are applied in determining ECL and reflect historical experience and other factors that are considered to be relevant, including expectations of future events that are believed to be reasonable under the circumstances including the:
• extent & duration of pandemic • impacts of actions of gov. & other authorities • responses of businesses & consumers • associated impact on the global economy

KEY JUDGEMENTS & ASSUMPTIONS IN RELATION TO MODEL INPUTS

Judgement / Assumptions	Description[1]
Base case economic forecast	The Group derives a forward looking "base case" economic scenario which reflects ANZ's view of the most likely future macro-economic conditions.
Probability weighting of each scenario (base case, upside, downside and severe downside scenarios)	Determined by management considering the risks and uncertainties surrounding the base case scenario.
Determining when a significant increase in credit risk (SICR) has occurred	Judgement is involved in setting the rules and trigger points to determine whether there has been a significant increase in credit risk (SICR) since initial recognition of a loan, which would result in the financial asset moving from 'stage 1' to 'stage 2'. Transition from stage 1 to stage 2 increases the ECL from an allowance for 12 month expected credit losses, to an allowance for lifetime expected credit losses. Subsequent decreases in credit risk resulting in transition from stage 2 to stage 1 may similarly result in significant changes in the ECL allowance.
Measuring both 12-month and lifetime credit losses	ECL is a function of the probability of default (PD), the loss given default (LGD) and the exposure at default (EAD) which are point-in-time measures reflecting the relevant forward looking factors determined by management. Judgement is involved in determining which forward looking factors are relevant for particular lending portfolios and for determining the sensitivity of the parameters to movements in these forward looking factors. Judgement is also required where behavioural characteristics are applied in estimating the lifetime of a facility.
Management temporary adjustments	Adjustments are used in circumstances where it is judged that our existing inputs, assumptions and model techniques do not capture all the risk factors relevant to our lending portfolios. Emerging local or global macroeconomic, microeconomic or political events, and natural disasters that are not incorporated into our current parameters, risk ratings, or forward-looking information are examples of such circumstances.

1. Refer to pages 85 & 86 of ANZ's 1H20 Condensed Consolidated Financial Statements which describe the key changes and considerations to judgements and assumptions used in determining the ECL in the first half of 2020

BASE CASE ECONOMIC FORECAST

The Group has modelled the ECL provision based on the economic factors which are most predictive of the level of default in the credit portfolio.

The uncertain evolution of the COVID-19 pandemic increases the risk of the forecast resulting in an understatement or overstatement of the ECL provision due to uncertainties around:

- The extent and duration of measures to stop or slow down the spread of COVID-19
- The extent and duration of the economic down turn, along with the time required for economies to recover, and
- The effectiveness of government stimulus measures, in particular their impact on the magnitude of economic downturn and the extent and duration of the recovery.

The Group's base case economic forecast scenario reflects a sharp deterioration in economic conditions in the 2nd quarter 2020 with a gradual improvement thereafter. It reflects a widespread shutdown in the 2nd quarter of calendar 2020 with a progressive recovery thereafter.

The economic drivers of the base case economic forecast at 31 March 2020 and those used at 30 September 2019 are set out below and on the next slide. These reflect ANZ's view, at the respective reporting dates, of the most likely future macro-economic conditions for the major jurisdictions in which the Group operates.

Base case economic forecast – Australia		
	As at 31 Mar-20	**As at 30 Sep-19**
GDP	GDP is expected to contract 13% in the June 2020 quarter and to recover thereafter resulting in calendar year 2020 GDP contracting 4.7% then growing by 4.1% in calendar year 2021	Expected to improve modestly
Unemployment rate	The unemployment rate is expected to reach 13% in the June 2020 quarter before a moderate recovery in the September 2020 quarter. It is expected to average 9.0% for calendar year 2020 and 7.3% for calendar year 2021	Expected to remain essentially flat
Residential property values	Property prices are expected to fall progressively by 4.1% in calendar year 2020 (taking into account growth pre COVID-19) and to contract a further 6.3% in calendar year 2021	Expected to improve after a period of decline
Consumer price index	CPI growth is forecast at 1.2% for calendar year 2020 and 1.6% for calendar year 2021	Growth expected to rise from current levels

BASE CASE ECONOMIC FORECAST (Continued)

Base case economic forecast – New Zealand		
	As at 31 Mar-20	**As at 30 Sep-19**
GDP	GDP is expected to contract by 17% in the June 2020 quarter, rebounding in the September 2020 quarter once activity resumes, resulting in calendar year 2020 GDP contracting 6.7% then growing by 4.2% in calendar year 2021	Expected to improve modestly
Unemployment rate	Unemployment is expected to average 7.4% for calendar year 2020 and 7.7% for calendar year 2021	Expected to remain stable
Residential property values	Property prices are expected to contract by 1.9% in calendar year in 2020, followed by 6.0% growth in calendar year 2021	Expected to achieve modest levels of growth
Consumer price index	CPI growth is forecast at 1.5% for calendar year 2020 and 1.5% for calendar year 2021	Expected to rise modestly

Base case economic forecast – Rest of the world		
	As at 31 Mar-20	**As at 30 Sep-19**
GDP	GDP is expected to contract 3.6% over calendar year 2020 and then grow by 2.0% over calendar year 2021	Growth is forecast to taper lower in the near term due to uncertainty in the global outlook
Consumer price index	Inflation is forecast at 0.9% for calendar year 2020 and 1.7% for calendar year 2021	Expected to remain soft

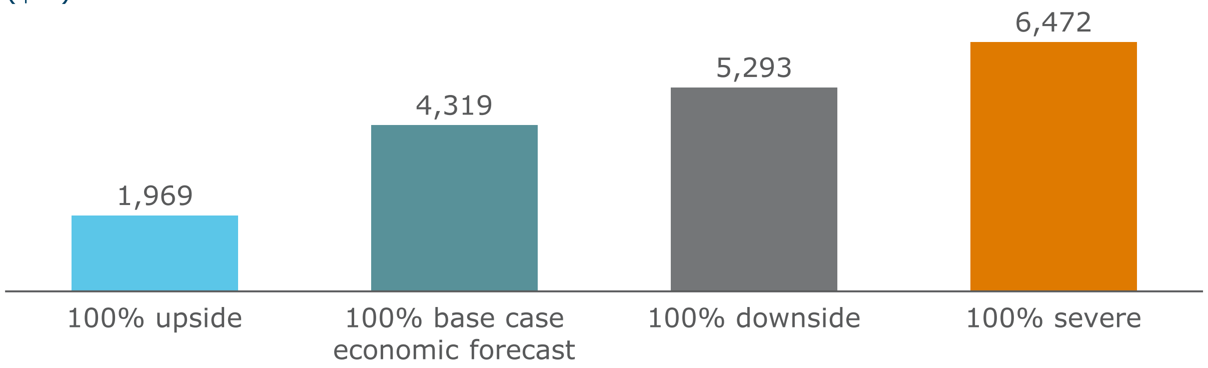
BALANCE SHEET COLLECTIVE CREDIT PROVISION

BASE CASE ECONOMIC FORECAST (AS AT 31 MARCH 2020 POST COMMENCEMENT OF COVID-19)

BASE CASE ECONOMIC FORECAST[1]	Australia			New Zealand		
	Jun-20 Qtr.	CY2020	CY2021	Jun-20 Qtr.	CY2020	CY2021
GDP change[2]	-13.0%	-4.7%	4.1%	-17.0%	-6.7%	4.2%
Unemployment rate[3]	13.0%	9.0%	7.3%	8.6%	7.4%	7.7%
Residential Property price change[2]	-1.1%	-4.1%	-6.3%	-2.0%	-1.9%	6.0%

COLLECTIVE PROVISION BALANCE SCENARIOS[4] (31 MARCH 2020)

Weightings are applied to provisioning scenarios to determine collective provision balance ($m)



ECL SENSITIVITY

Weightings applied to forecast scenarios		
	Total ECL ($m)	Impact ($m)[5]
100% upside scenario	1,961	-2,533
100% base scenario	4,319	-183
100% downside scenario	5,293	791
100% severe downside scenario	6,472	1,970

1. A subset of a range of economic indicators is shown
2. Jun-20 Qtr: Quarter on Quarter change; CY2020 & CY2021: Year on Year to December change
3. CY2020 & CY2021 are annual averages
4. Illustration of the impact on ANZ's Expected Credit Loss (ECL) allowance where a 100% weighting is applied to each scenario
5. Impact compared with actual collective provision balance as at 31 Mar-20

SCENARIO PROBABILITY WEIGHTINGS AND CAPITAL SENSITIVITIES

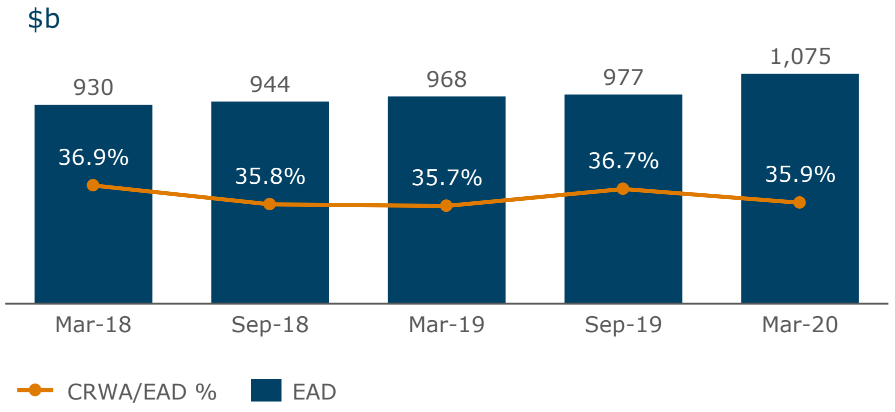
- Probability weights are assigned to 4 economic scenarios to arrive at the ECL provision.
- Probability weighting involves considering the risks and uncertainties surrounding the base case scenario, as well as any specific portfolio considerations required.
- The Group Asset and Liability Committee (GALCO) has responsibility for reviewing and approving the base case forecast and the Credit and Market Risk Committee (CMRC) approves the probability weights applied to each scenario.
- Where applicable, temporary adjustments may be made to account for situations where known or expected risks have not been adequately addressed in the modelling process. CMRC approves such adjustments.

Scenario	Description	Weightings at 31 Mar-20
Base case	Derived forward looking "base case" economic scenario which reflects ANZ's current view of the most likely future macro-economic conditions	Scenario weights were determined by geography. ANZ applied the majority of its weightings to the base and downside scenarios
Upside	Upside and downside scenarios are fixed by reference to average economic cycle conditions (that is, they are not based on the economic conditions prevailing at balance date) and are based on a combination of more optimistic (in the case of the upside) and pessimistic (in the case of the downside) economic conditions	
Downside		
Severe Downside	Severe downside scenario is fixed by reference to average economic cycle conditions and accounts for the potentially severe downside impact of less likely extremely adverse economic conditions	

AN EXAMPLE OF POSSIBLE CREDIT RWA AND CET1 IMPACTS OF PORTFOLIO CREDIT MIGRATION OVER 18 MONTHS TO SEP-21

	CRWA / EAD[1]	CET1 RATIO
Base Case Scenario	**Up ~4ppts**	**~110bps**
CRWA/EAD and CET1 estimated impacts are based on modelled outcomes under ANZ's base case scenario and assumed impacts of that scenario.		

ANZ REPORTED CREDIT RWA INTENSITY



1. Based on EAD as at 31 Mar-20
2. EAD excludes Securitisation and Other assets whereas CRWA is inclusive as per APS 330

AASB 9 OVERVIEW & STAGES

The ECL provision is categorised into 3 stages based on SICR and whether default has occurred;

- Stage 1 - 12 months Expected Credit Loss (ECL)
  - On origination, Stage 1 for all facilities, remains unless significant increase in credit risk
- Stage 2 – Lifetime ECL
  - Significant increase in credit risk since origination
- Stage 3 – Non-performing: Lifetime ECL
  - Includes both collectively and individually assessed provisions for impaired loans

Drivers between stages

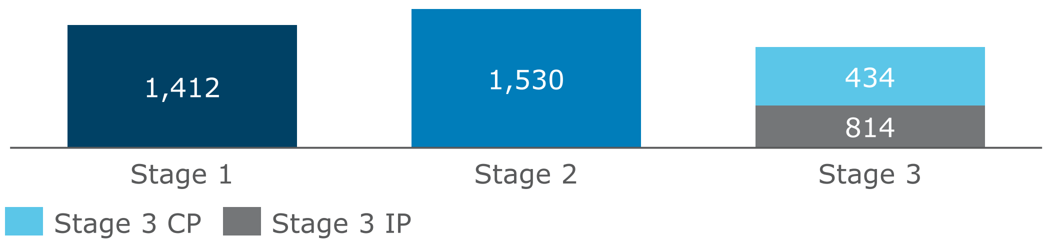
- Retail: driven by Customer Behavioural Scores and delinquency
- Institutional & Commercial: driven by Customer Credit Rating (CCR) migration

PROVISION BALANCE/COVERAGE RATIO

By stages ($m) AASB-9

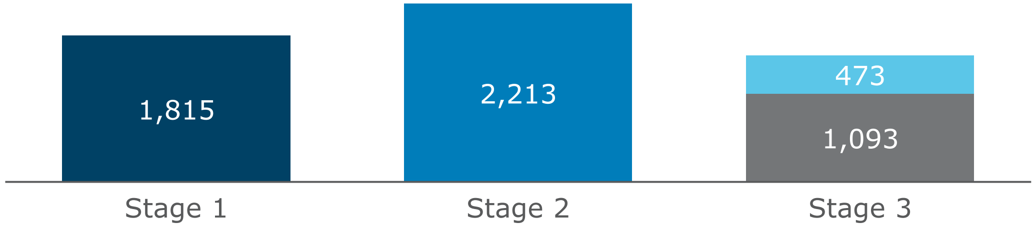
30 Sep-19

Coverage ratio by stage[1]		
1	**2**	**3**
0.17%	2.40%	18.03%



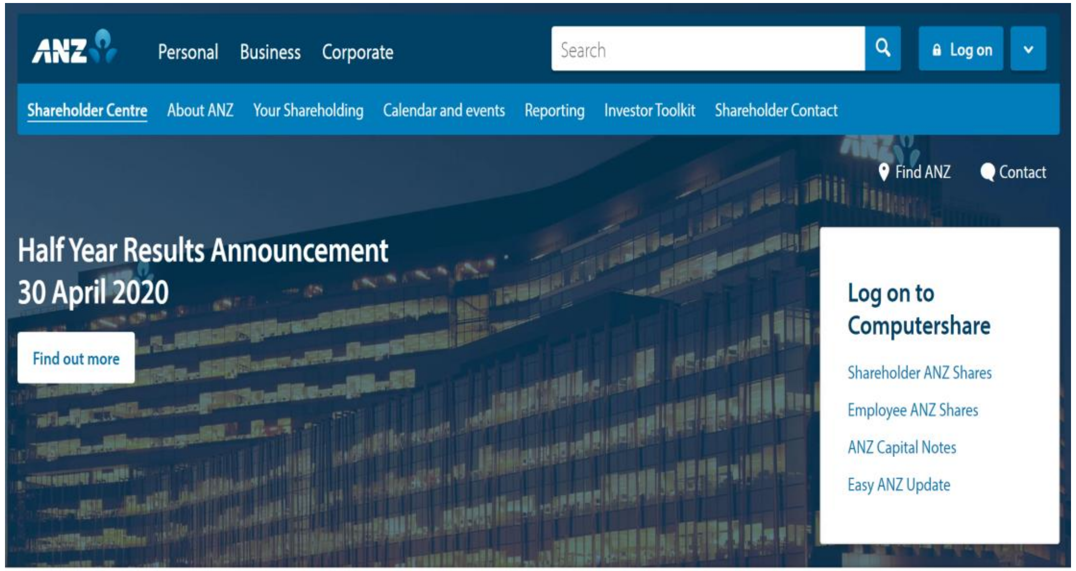
31 Mar-20

Coverage ratio by stage[1]		
1	**2**	**3**
0.20%	3.04%	20.77%



1. Coverage ratio calculated as Provision Balance to Gross Loans & Advances for on-balance sheet exposures

FURTHER INFORMATION



ASX Announcements | Financial calendar | ASX Share Prices

Our Shareholder information anz.com/shareholder/centre/

Equity Investors

Jill Campbell
Group General Manager Investor Relations
+61 3 8654 7749
+61 412 047 448
jill.campbell@anz.com

Cameron Davis
Executive Manager Investor Relations
+61 3 8654 7716
+61 421 613 819
cameron.davis@anz.com

Harsh Vardhan
Manager Investor Relations
+61 3 8655 0878
+61 466 848 027
harsh.vardhan@anz.com

Retail Investors

Michelle Weerakoon
Manager Shareholder Services & Events
+61 3 8654 7682
+61 411 143 090
michelle.weerakoon@anz.com

Debt Investors

Scott Gifford
Head of Debt Investor Relations
+61 3 8655 5683
+61 434 076 876
scott.gifford@anz.com

Mary Makridis
Associate Director Debt Investor Relations
+61 3 8655 4318
mary.makridis@anz.com